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CORPORATION FILE

R. J. Reynolds Tobacco Company

(JRJR)

ANNUAL REPORT 1965

R. J. Reynolds Tobacco Company

WINSTON-SALEM • NORTH CAROLINA

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Comparative Summary

CONSOLIDATED

RJR

	1965	1964
SALES, EARNINGS AND DIVIDENDS		
Net Sales	$1,693,148,320	$1,613,802,495
Net Earnings	133,356,992	124,005,490
Net Earnings as a percentage of Net Sales	7.88%	7.68%
Earnings per share on Common Stock *before* taxes on income*	$ 6.61	$ 6.14
Taxes on income per share of Common Stock*	3.31	3.12
Net Earnings per share of Common Stock*	3.30	3.02
Dividends per share on Common Stock	1.85	1.80
Dividends on Preferred Stock	722,129	768,352
Dividends on Common Stock	75,006,254	73,734,383
*Based on shares outstanding at year end	40,191,376	40,868,647
FINANCIAL POSITION AND EQUITIES AT YEAR END		
Total Assets	$1,111,986,583	$1,019,201,700
Current Assets	881,657,619	867,190,096
Current Liabilities	273,370,403	202,160,282
Net Current Assets–Working Capital	608,287,216	665,029,814
Real Estate, Machinery and Equipment–Net	181,633,268	144,360,897
Long-Term Debt	55,000,000	62,000,000
Equity of holders of Preferred Stock	20,000,000	20,271,500
Equity of holders of Common Stock	763,616,180	734,769,918
Number of stockholders at year end	118,281	114,010
Number of regular employees at year end	16,320	14,353

Bowman Gray

A. H. Galloway

TO THE STOCKHOLDERS

The Company's business in 1965 attained the highest level in its history. New records were set in sales, earnings, and dividend payments. The dividend rate on the Common Stock was increased to 50 cents per share in the last quarter, marking the twelfth consecutive year in which the total dividend payment per share has been increased.

Consolidated sales in 1965 amounted to $1,693,148,320, an increase of 4.9 per cent over the prior year. This gain reflects the record performance of the Company's filter cigarette brands and the addition of Penick & Ford's diversified line of products. Consolidated net earnings were $133,356,992, a gain of 7.5 per cent.

The volume of cigarette shipments exceeded that of 1964 but was slightly below the record year of 1963.

The Company continued its leadership as the largest manufacturer of cigarettes in the United States for both the domestic and the export markets. Three of its brands—WINSTON, SALEM, and CAMEL—were among the four best-selling cigarettes in 1965, and each maintained its leadership in its own category.

The Cigarette Advertising Code, adopted in 1964 by the nine leading manufacturers of cigarettes, became effective January 1, 1965. This voluntary Code sets forth uniform standards for the member companies for cigarette advertising in the United States, Puerto Rico, any territory or possession of the United States, and any military installation of the United States. The Administrator of the Code is the former Governor of New Jersey, the Honorable Robert B. Meyner.

Federal legislation enacted in 1965 requires cigarette packages and cartons to bear the statement, "Caution: Cigarette smoking may be hazardous to your health." The law took effect January 1, 1966. It is, therefore, too soon to determine what effect this requirement may have on cigarette sales.

The subject of smoking and health continued to be the most serious issue of the year for the entire tobacco industry. An unprecedented publicity campaign was sponsored by certain groups opposed to smoking. However, the basic facts at issue did not change. A number of distinguished doctors and other scientists appeared as witnesses before Congressional Committees which conducted hearings on various bills relating to the labeling and advertising of cigarettes. The essence of their testimony was that they questioned the conclusions in the report of the Advisory Committee to the Surgeon General, and that even though there may be a statistical association between smoking and various diseases, this statistical relationship does not prove cause and effect. These impartial experts said that experimental and laboratory proof to support the statistics is lacking; they also said other explanations for the statistics exist and that many factors in addition to smoking need investigation.

The tobacco industry, in its efforts to find definitive answers to these questions, continued its substantial support of the independent, no-strings-attached research being conducted through The Council for Tobacco

Research—U.S.A. and the American Medical Association Education and Research Foundation.

In our letter last year we referred to the problem of the mounting surplus of flue-cured leaf tobacco. In a referendum held last May, the growers voted to accept for three years new controls based on poundage as well as acreage quotas. From the standpoint of quantity and quality of production, the first year under the plan was apparently successful. Due to favorable climatic conditions, and to improved agricultural practices by the tobacco farmers, the 1965 flue-cured crop resulted in a generally more useful tobacco being offered.

The Company's diversification program is adding to our sales and over-all prospects. The products of our Pacific Hawaiian subsidiary continue to hold a prominent position in the tropical fruit beverage market, although they represent a relatively small percentage of our total sales. In the coming year, we shall continue our efforts to increase the sales of HAWAIIAN PUNCH and the other fine fruit beverages and fruit concentrates produced by the Company.

The acquisition in June, 1965, of Penick & Ford, with its broad list of industrial and food products, was a significant step in the trend toward diversified sales. Among these products are corn derivatives such as starches, oils, and syrups sold in bulk for a wide variety of industrial uses. These include chemicals, drugs, paper, packaging, and textiles. This subsidiary also produces and markets a number of well-known food products for consumers, and it is hoped that all of our stockholders will use them and recommend them to their friends.

During 1965 the courts refused to issue an injunction requested by the Department of Justice prohibiting our acquisition of Penick & Ford. We are now opposing the Department's efforts to force us to divest ourselves of these assets.

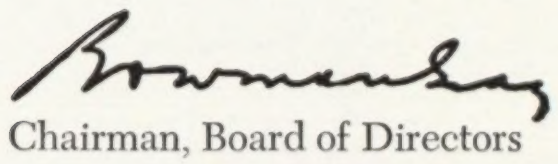
The Company's Archer Aluminum Division announced plans in October to construct an aluminum sheet and foil rolling plant in Huntingdon, Tennessee, to expand its production facilities. In December it was announced that a new plant would be opened at Greeneville, Tennessee, for the manufacture of gift-wrapping items and other consumer products.

On January 6, 1966, the Company entered into contracts looking toward the acquisition of the assets of Filler Products, Inc., and related companies. The Filler group is engaged in the manufacture and distribution of a variety of snack food products, the best known of which are CHEESE-TRIX, TOR-TEES, and BAKON-KRISP. This acquisition will be another step forward in our program of diversification in the areas of foods, beverages, and consumer goods products.

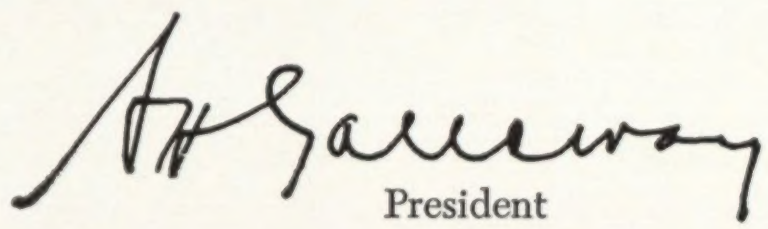
The Company's Committee on Diversification is continuing its activities looking toward further acquisitions.

Again in 1965 the employees of the Company and its subsidiaries responded with splendid loyalty and sustained effort in meeting the year's challenges and demands. The management expresses to all of them its appreciation for making possible another record year of progress.

Respectfully submitted for the Board of Directors,



Chairman, Board of Directors



President

February 10, 1966

Financial Review

Sales and Earnings

Sales and net earnings for the year 1965 reached new highs. Sales totaled $1,693,148,320, an increase of $79,345,825, or 4.9% over 1964. Contributing to this gain were record sales of the Company's filter cigarette brands and the additional sales volume resulting from the Penick & Ford acquisition.

Net earnings amounted to $133,356,992, or $9,351,502 greater than in the previous year. This increase of 7.5% reflects higher sales, the lower federal income tax rate, close control of costs by cost-conscious employees, and greater production efficiencies resulting from capital outlays for new and improved equipment.

Net earnings on the Common Stock, after payment of dividends on the Preferred Stock, were $3.30 per share on the basis of 40,191,376 shares outstanding at year end. This compares with $3.02 per share earned in 1964 on the 40,868,647 shares outstanding at the close of that year.

The net assets and business of Penick & Ford, Ltd., Incorporated were purchased on June 9, 1965, for $96,562,356 in cash. Accordingly, the operating results of the new subsidiary since that date have been included in the consolidated results.

Dividends

In the fourth quarter of 1965, the quarterly dividend on Common Stock was increased from 45 cents to 50 cents per share, resulting in a total of $1.85 a share for the year compared with $1.80 during 1964. Total dividends paid during the year amounted to $75,728,383, the largest for any year in the Company's history. The year 1965 marks the 66th year of consecutive dividend payments.

Financial Position

At year end, short-term borrowings were $125,000,000, or $58,000,000 higher than at the close of the previous year. The Company was free of this type of debt for a period of time prior to the purchase of Penick & Ford on June 9, and again for a short time in August preceding heavy seasonal purchases of flue-cured leaf tobacco. Long-term debt was reduced by $7,000,000 in 1965 and at the end of the year amounted to $55,000,000.

DISTRIBUTION OF THE 1965 SALES DOLLAR

During the year, the Company made additional purchases on the New York Stock Exchange of 677,500 shares of its common stock at an average cost of $42.54 per share. At year end there were 780,157 such shares in the Treasury available for use in the Company's diversification program and other corporate purposes.

Capital Expenditures

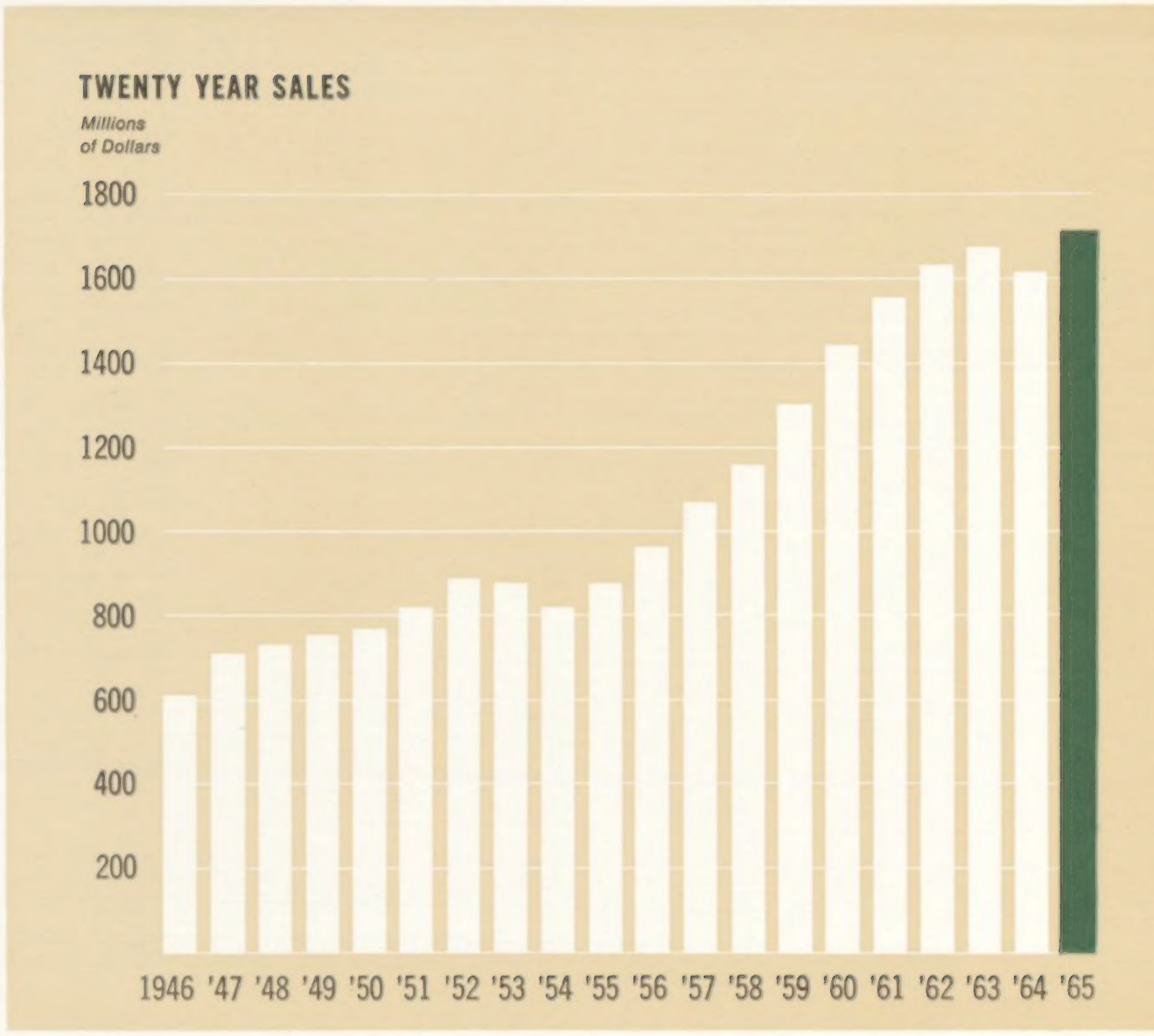
The Company invested $20,246,025 in capital improvements during 1965, principally for the modernization of cigarette plants. Also included were outlays for improved corn-refining equipment for Penick & Ford and expansion of facilities for the Archer Aluminum Division and the Pacific Hawaiian Products Company.

Capital expenditures for 1966 are currently estimated at $31,000,000. A large part of this will be spent on continuing modernization of the cigarette factories.

The Archer Division will establish a new operation in Greeneville, Tennessee, for the manufacture of gift-wrapping items and consumer and institutional aluminum foil and paper products. Construction of a new $8,500,000 aluminum sheet and foil rolling plant in Huntingdon, Tennessee, has begun and is scheduled for completion in 1967.

An estimated $4,500,000 will be spent during 1966 to expand corn-refining capacity at Cedar Rapids, Iowa.

Expansion of the Company's research and development facilities to meet its diversification needs will be undertaken in 1966.



DISPOSITION OF NET EARNINGS

for the year ended December 31, 1965

Dividends paid		$ 75,728,383
Purchase of Preferred Stock		240,774
Purchase of Common Stock		28,813,073
Decrease in long-term debt		7,000,000
Net increase in real estate, machinery and equipment:		
Capital expenditures	$20,246,025	
Cost assigned to real estate, machinery and equipment acquired from Penick & Ford, Ltd., Incorporated	39,369,918	
Less:		
Depreciation for year	(21,859,294)	
Net asset disposals	(484,278)	37,272,371
Cost in excess of net assets of business acquired		35,122,752
Increase in other assets		5,922,237
		190,099,590
Less decrease in working capital:		
Increase in current liabilities	71,210,121	
Less increase in current assets	14,467,523	56,742,598
Net Earnings		$133,356,992

Tobacco Products

In 1965 the Company continued as the largest producer of cigarettes in the United States for both the domestic and the export markets. Three of the four best-selling cigarette brands in the nation were Reynolds products.

WINSTON, the Company's largest-selling brand, enjoyed a good growth and again outsold all other filter cigarettes by a wide margin.

CAMEL improved its share of the regular-size, non-filter cigarette market and remained the leader in that category.

SALEM, the nation's best-selling menthol cigarette, rose in both volume and share of its market over 1964.

TEMPO, the Company's charcoal-tip cigarette, maintained its position in the charcoal category during 1965 but has not reached the status of a major brand.

New Brands Introduced

Two new cigarette brands were introduced in test markets: PRINCE ALBERT Filters in August and CAMEL Filters in October. Both were well accepted in the test areas. One purpose of the market test of CAMEL Filters was to measure consumer preference for various package designs.

The Company's smoking tobacco business, like that of the industry, declined in 1965 from the abnormally high level of 1964. However, Reynolds' rate of decline was less than that of the industry.

PRINCE ALBERT continued as the largest-selling smoking tobacco in the nation. Nineteen sixty-five was the first full year of national distribution of "P.A." in the foil pouch. This additional style of package now represents an important part of PRINCE ALBERT sales.

CARTER HALL remained firmly established as one of the leading brands of smoking tobacco. Its sales in 1965 were the highest for any year except 1964, an abnormal year for all smoking tobaccos.

MADEIRA MIXTURE Smoking Tobacco, a distinctive aromatic blend packaged in a "golden humidor pack," was initially marketed in July in a few selected cities. Starting in October, distribution was expanded, looking toward national marketing of the new product. MADEIRA MIXTURE was introduced to take advantage of the trend to premium-priced, luxury blends, the fastest-growing segment of the smoking tobacco business.

DAYS WORK retained its top position among chewing tobaccos, although sales of the Company's chewing tobaccos declined in volume in line with the industry trend.

Camel
CIGARETTES
Camel
CAMEL
TURKISH & DOMESTIC BLEND CIGARETTES
CHOICE QUALITY
KING SIZE
Winston
FILTER-CIGARETTES
Winston
FULL-RICH TOBACCO FLAVOR
KING SIZE
Winston
FILTER-CIGARETTES
FULL-RICH TOBACCO FLAVOR
Winston
FULL-RICH TOBACCO FLAVOR
Menthol Flavor
Salem
Salem
FILTER CIGARETTES
Menthol Flavor
Salem
CIGARETTES
Filter-Tip
Salem
Tempo
KING SIZE
Filter Cigarettes
FOR TASTE TOO GOOD TO MISS
Tempo
FOR TASTE TOO GOOD TO MISS
Tempo
KING SIZE FILTER CIGARETTES
Tempo
Cavalier
Superior
CIGARETTES
Cavalier
CRUSH-PROOF BOX
Cavalier
SUPERIOR CIGARETTES
Cavalier

Advertising Program

Effective advertising of its major cigarette and smoking tobacco brands contributed importantly to the Company's continued sales leadership in 1965.

Cigarette brands were promoted in mass media, including network and spot television, network and spot radio, general magazines, men's and women's magazines, and regional and local newspapers. Supplementary advertising support was provided by Railway Express truck posters, transportation car cards, and point-of-sale display materials.

In advertising its products on network television, the Company tried to select a wide range of programs to appeal to adult viewers having diversified tastes in entertainment.

Musical variety shows included "The Andy Williams/Jonathan Winters Variety Show," "Hollywood Palace," "The Danny Kaye Show," and "The Jimmy Dean Show." In the comedy category were "Get Smart," "McHale's Navy," "The Beverly Hillbillies," and "Mona McCluskey." Western fans were reached with "The Virginian," "F Troop," and "The Legend of Jesse James," and panel shows included "To Tell the Truth," "Password," and "I've Got a Secret."

In feature-film programs, a very popular entertainment format, the Company was represented by "Saturday Night at the Movies" and "The Sunday Night Movie." Sports enthusiasts saw commercials for the Company's brands on "Wide World of Sports," "AFL Football," and "American Sportsman," as well as on a number of network and regional sports specials. "The Today Show" appealed to viewers interested in news and current events.

New cigarette advertising themes used during the year included: "CAMEL's *real* taste satisfies longer"; "Change to WINSTON and change for good . . . for *good taste* every time"; and, for TEMPO, "Times change. Tastes change. I've changed too . . . to TEMPO." There was an exceptionally favorable response to the new television commercials for SALEM, portraying scenic splendor in many areas of the nation to illustrate the new theme, "Turn to SALEM for a taste that's springtime fresh."

The promotional efforts of the Company's field sales force were intensified, and a number of special promotions were conducted during the year for various brands. New and improved merchandising fixtures and point-of-sale materials were made available to retailers to help them increase their tobacco sales.

International Markets

The Company's international marketing group expanded its organization to intensify its coverage of world markets.

Reynolds' position as the leading exporter of cigarettes from the United States was maintained in 1965. Gains were made in both volume of shipments and share of total market.

Reynolds' cigarette brands are sold in more than 100 countries throughout the free world and are energetically promoted in markets offering the greatest potential for cigarettes imported from the United States. Noteworthy was the large gain made by the Company in 1965 in the important Puerto Rican market, where Reynolds holds the No. 1 position in sales. WINSTON was the leading cigarette brand in Puerto Rico by a wide margin.

In the German cigarette market, WINSTON and REYNO, which are manufactured under license from the Company by its affiliate, Zigarettenfabrik Haus Neuerburg, K.G., are now firmly established brands. REYNO, the leading menthol-filter cigarette in Germany, showed a good volume gain for the year. OVERSTOLZ, Haus Neuerburg's best-selling brand, is the leader in its category of non-filter cigarettes.

Food Products

An important step in the Company's diversification program was taken in June, 1965, with the acquisition of the business of Penick & Ford, Ltd., Incorporated. A new Delaware corporation, Penick & Ford, Limited, which is wholly owned by Reynolds, was created to operate the business.

This new subsidiary, together with Pacific Hawaiian Products Company, gives Reynolds a growing position in the food business.

Penick & Ford, Ltd., Incorporated began business in 1920 and in 1964, its last full year of operations before its acquisition, sales amounted to $74,954,940 and net earnings $4,412,218. Reynolds' new subsidiary will continue operating the eleven manufacturing plants which are located in eight states.

Some of the well-known brands of consumer food products which Penick & Ford produces and markets are illustrated on the opposite page. Consumer products account for roughly 40 per cent of Penick & Ford's output. Bulk products sold to industry make up the balance — such items as corn syrups and corn oils, corn and potato starches, dextrines and gums, and syrups. These have a wide variety of uses, including chemicals, drugs, paper, packaging, and textiles.

Manufacturing Plants

Penick & Ford's manufacturing plants are situated as follows:

Cedar Rapids, Iowa—A 45-building complex, located in the heart of the corn-growing area, produces corn-derived items.

Monte Vista, Colorado, and Idaho Falls, Blackfoot, and Aberdeen, Idaho—Four plants produce potato starches.

Hoboken, New Jersey—This plant is the major production and distribution point for My-T-Fine Puddings and Pie Fillings and Pie Crust Mixes, Davis Baking Powder, Swel Frosting Mixes, and Cocomalt.

Burlington, Vermont—Located in the New England maple sugar region, this plant blends and bottles Vermont Maid Syrups.

Pinckneyville, Illinois—Produces My-T-Fine Puddings and Pie Fillings for Midwest distribution and serves as a warehouse for other products.

Harvey, Louisiana—A 23-acre plant, near the Louisiana sugarcane belt, produces and packages molasses and syrups.

Chicago, Illinois—A modern plant blends and packages syrups and also serves as a distribution point for bulk corn syrup and as a warehouse for other items.

Lockport, New York—The College Inn plant produces chicken and beef specialties, Tomato Cocktail, and Vegamato Vegetable Juices.

The Cedar Rapids plant has been operating at or near capacity since the acquisition. Some facilities for expanded production which had been initiated before the acquisition are now in operation; and plans have been approved for additional capacity to produce pearl starch, modified starches, and corn syrups.

Following the acquisition of Penick & Ford, increased promotional efforts were begun on College Inn vegetable juices and chicken specialties.

Network television advertising was begun for the My-T-Fine, Vermont Maid, and Brer Rabbit lines and regional television was used in further promotion of these products.

Increased attention is being given to the development of new food items. At the year's end several of them were in various stages of consumer testing.

MY-T-FINE
COOK with MILK
PUDDING & PIE FILLING
CHOCOLATE FLAVOR
NET WT. 3½ OZ
College Inn
CHICKEN BROTH
CHICKEN a la KING
TOMATO COCKTAIL
VEGAMATO
VEGETABLE JUICES
MANDALAY
EGG NOODLES & CHICKEN
BONED CHICKEN
Brer Rabbit
MOLASSES
SPECIAL RECIPE
TABLE SYRUP
Corn and Cane Syrups
Swel
FROSTING MIX
CREAMY WHITE
Vermont Maid
SYRUP
Cane Sugar and Maple Sugar Syrup
NEW!
MY-T-FINE
Pie Crust Mix
FLAKY, LIGHT AND TENDER
SPECIAL OFFER
SEE BACK
Cocomalt
DAVIS
BAKING
POWDER

Fruit Juice Beverages

The products of Pacific Hawaiian Products Company continued to hold a prominent position in the tropical fruit beverage market in 1965.

Despite a decline in the general demand for ready-to-drink fruit beverages in 1965 compared to the previous year, shipments of HAWAIIAN PUNCH in ready-to-drink form were up slightly, indicating an improved position in its share of the market.

Low-calorie HAWAIIAN PUNCH, test-marketed in 1964, attained national distribution in 1965 and was accepted by many new consumers who had not previously tried HAWAIIAN PUNCH. Marketing of the low-calorie version is believed not to have affected the sales of the regular product to any great degree.

Pacific Hawaiian's headquarters plant at Fullerton, California, was remodeled during the year to provide additional space for marketing activities and cold-storage space for better quality control of raw materials. The HAWAIIAN PUNCH canning facility at Baltimore, Maryland, was moved to new and more modern quarters.

Television advertising for HAWAIIAN PUNCH was expanded on national network shows.

Plans were developed for test-marketing a line of KING OF THE ISLANDS Frozen Concentrated Breakfast Drinks. Two that will be introduced in the spring of 1966 are passionfruit and guava. Other products ready for market tests are 12-ounce Sunshine Yellow HAWAIIAN PUNCH, both regular and low-calorie, and HAWAIIAN PUNCH in low-calorie frozen-concentrate form.

Packaging Materials

The Archer Aluminum Division had another year of significant growth in 1965. It is a leading producer of packaging materials and is an important factor in the light-sheet and foil markets.

Sales to Archer's outside customers again increased substantially, although the greater part of its production was for use by the Company in packaging its cigarettes and other tobacco products.

Orders were up significantly for aluminum sheet products, which are used by Archer's industrial customers for further fabrication. There was a sizable increase in the number of customers using Archer's laminated and printed materials for packaging of consumer products, with a corresponding gain in sales volume. Large sales gains were also made in gift wrap, household foil, and florist supplies.

To keep pace with the Archer Division's rapid growth, two expansion projects were under way at the year's end: an aluminum sheet and foil rolling plant at Huntingdon, and a new consumer product facility at Greeneville, Tennessee.

The Huntingdon plant, expected to be in full-scale operation by mid-1967, will have the dual advantage of proximity to raw materials and to rapidly expanding markets in the Midwest and Southwest.

Opening of the Greeneville plant in the spring of 1966 will permit Archer to diversify its aluminum foil and paper products lines, and it will also provide space needed to expand laminating and printing facilities in Winston-Salem.

The Division's research and development activities continued vigorously in 1965, with emphasis on product development and quality control.

10 Year Record

CONDENSED COMPARATIVE FINANCIAL DATA

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

Year ended December 31,	1965	1964	1963	1962	1961
SALES, EARNINGS AND DIVIDENDS (amounts in thousands of dollars)					
Net sales	$1,693,148	$1,613,802	$1,672,445	$1,627,541	$1,555,527
Income before taxes	266,376	251,725	277,601	260,977	265,220
Federal and state taxes on income	133,019	127,720	148,535	139,821	146,499
Net earnings	133,357	124,005	129,066	121,156	118,721
Dividends on Preferred Stock	722	768	858	936	1,044
Dividends on Common Stock	75,006	73,734	67,602	64,512	56,439
FINANCIAL POSITION AND EQUITIES (amounts in thousands of dollars)					
Current assets	$ 881,658	$ 867,190	$ 878,116	$ 930,246	$ 929,775
Federal and state tax liabilities	98,954	94,563	106,074	101,325	94,314
Other current liabilities	174,417	107,598	151,922	260,508	293,414
Working capital	608,287	665,030	620,120	568,413	542,047
Real estate, machinery and equipment—net	181,633	144,361	150,023	147,568	129,001
Other assets	48,696	7,651	9,501	11,313	9,085
Total assets	1,111,987	1,019,202	1,037,640	1,089,127	1,067,861
Long-term debt	55,000	62,000	68,000	74,000	80,000
Equity of holders of Preferred Stock	20,000	20,272	22,459	24,975	27,871
Equity of holders of Common Stock	763,616	734,770	689,185	628,320	572,262
FINANCIAL STATISTICS (Based on shares outstanding at year end; adjusted for 2-for-1 stock splits in 1961 and 1959 and the acquisition of Pacific Hawaiian Products Company on a pooling of interests basis)					
Income taxes per share of Common Stock	$ 3.31	$ 3.12	$ 3.62	$ 3.41	$ 3.58
Earnings per share on Common Stock	3.30	3.02	3.13	2.93	2.87
Dividends per share on Common Stock*	1.85	1.80	1.65	1.60	1.40
Book value per share of Common Stock	19.00	17.98	16.82	15.34	13.97

*On R. J. Reynolds Tobacco Company shares.

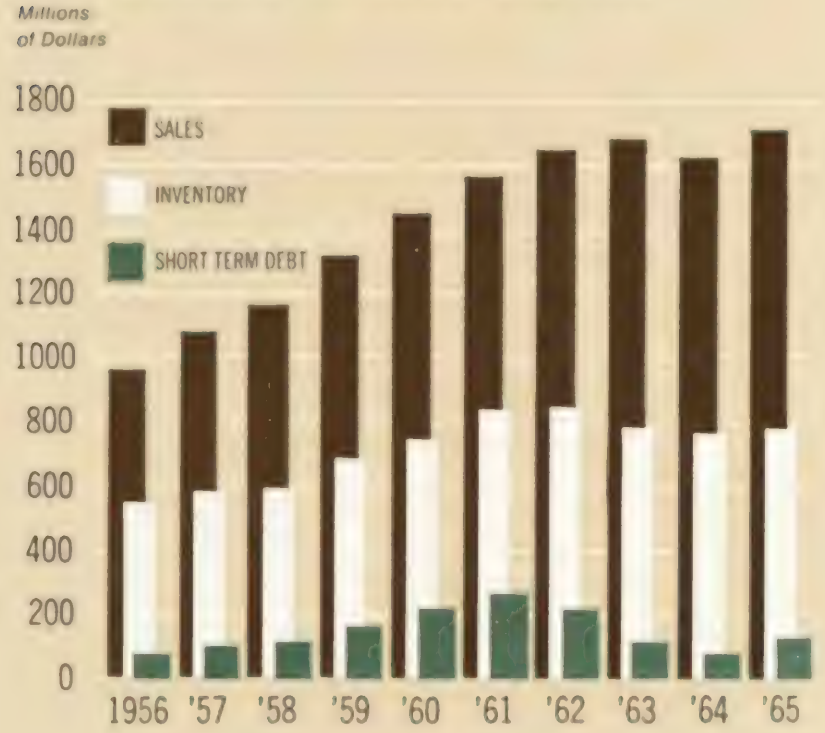
	1960	1959	1958	1957	1956
	$1,438,547	$1,306,197	$1,163,258	$1,066,727	$ 967,609
	224,018	199,825	173,757	139,930	138,187
	120,841	108,507	94,576	75,142	75,722
	106,375	91,318	79,181	64,788	62,465
	1,135	1,296	2,306	2,685	2,801
	48,345	42,260	37,150	32,785	30,760
	$ 827,224	$ 760,034	$ 665,337	$ 649,841	$ 613,678
	79,068	88,287	75,683	64,300	71,684
	248,374	191,636	132,137	117,179	77,121
	499,782	480,112	457,517	468,362	464,872
	112,606	96,153	79,830	64,376	45,799
	13,926	3,199	3,162	3,116	3,384
	953,756	859,386	748,329	717,333	662,861
	86,000	92,000	98,000	104,000	110,000
	29,511	34,301	37,666	67,012	69,033
	510,692	453,234	404,849	364,842	335,022
	$ 2.95	$ 2.65	$ 2.31	$ 1.84	$ 1.85
	2.57	2.20	1.88	1.52	1.46
	1.20	1.05	.92½	.82½	.77½
	12.47	11.07	9.89	8.91	8.20

EARNINGS AND DIVIDENDS PER COMMON SHARE

Dollars

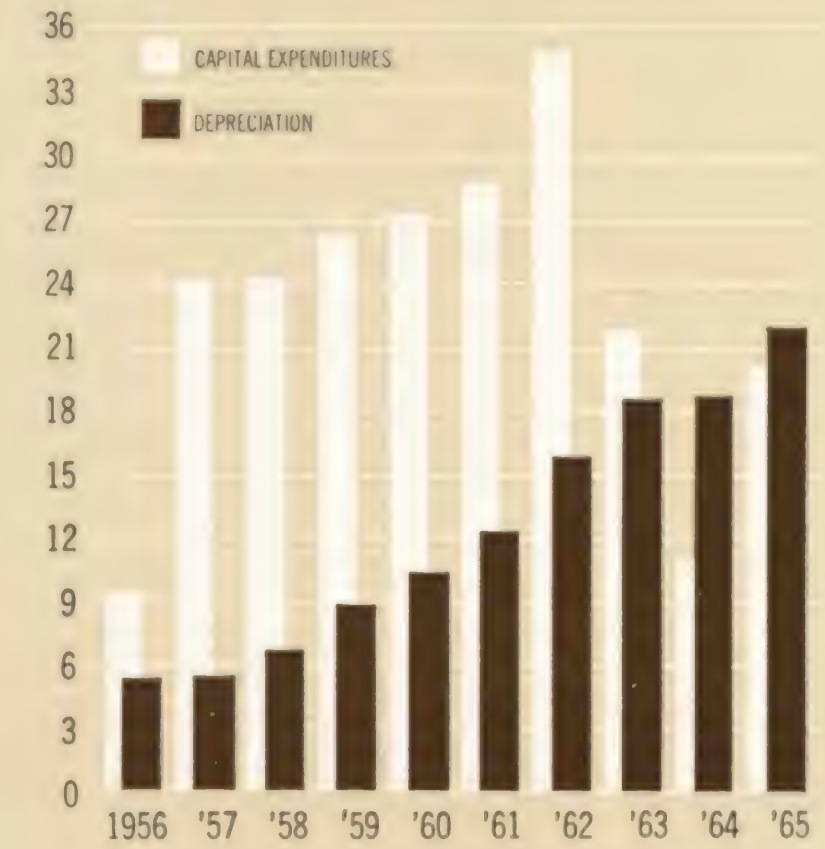
SALES, INVENTORY AND SHORT TERM DEBT

Millions of Dollars



CAPITAL EXPENDITURES AND DEPRECIATION

Millions of Dollars



Financial Position

December 31, 1965 — with comparative figures for 1964

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

ASSETS	1965	1964
CURRENT ASSETS:		
Cash	$ 25,152,631	$ 25,193,102
Marketable securities—at cost (approximately equal to market)	1,795,972	999,634
Accounts receivable (less discounts)	69,014,579	64,362,974
Leaf tobacco, supplies, manufactured products, etc.—at cost (substantially all on last-in, first-out basis)	783,434,344	775,282,220
Prepaid expenses	2,260,093	1,352,166
TOTAL CURRENT ASSETS	881,657,619	867,190,096
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	302,972,301	246,914,775
Less allowances for depreciation	121,339,033	102,553,878
NET REAL ESTATE, MACHINERY AND EQUIPMENT	181,633,268	144,360,897
OTHER ASSETS:		
Investments in (at cost, less reserves) and advances to unconsolidated foreign affiliates	8,089,417	7,136,803
Cost in excess of net assets of business acquired	35,122,752	——
Brands, trade-marks and good will	1	1
Sundry other assets	5,483,526	513,903
TOTAL OTHER ASSETS	48,695,696	7,650,707
	$1,111,986,583	$1,019,201,700

LIABILITIES	1965	1964
CURRENT LIABILITIES:		
Notes payable	$ 125,000,000	$ 67,000,000
Accounts payable and sundry accrued accounts	43,016,887	35,201,752
Portion of long-term debt due within one year (less principal amount of debentures in Treasury—$600,000 in 1965; $604,000 in 1964)	6,400,000	5,396,000
Federal and state taxes	98,953,516	94,562,530
TOTAL CURRENT LIABILITIES	273,370,403	202,160,282
LONG-TERM DEBT (due annually 1967-1972, $7,000,000; 1973, $13,000,000):		
2½% Promissory Notes	12,000,000	18,000,000
3% Debentures, due October 1, 1973	43,000,000	44,000,000
TOTAL LONG-TERM DEBT	55,000,000	62,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100		
Authorized and issued 490,000 shares, 3.60% Series	49,000,000	49,000,000
Common Stock—Par $5		
Authorized—60,000,000 shares; issued—40,971,533 shares	204,857,665	204,857,665
	253,857,665	253,857,665
Earnings Retained for requirements of the business	587,352,387	529,723,778
	841,210,052	783,581,443
Less Cost of Stock in Treasury:		
Preferred Stock, 3.60% Series (290,000 shares in 1965; 287,285 shares in 1964)	24,571,415	24,330,641
Common Stock (780,157 shares in 1965; 102,886 shares in 1964)	33,022,457	4,209,384
	57,593,872	28,540,025
TOTAL CAPITAL AND EARNINGS RETAINED	783,616,180	755,041,418
	$1,111,986,583	$1,019,201,700

Statement of Earnings

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

Year ended December 31, 1965 — with comparative figures for 1964

	1965	1964
NET SALES	$1,693,148,320	$1,613,802,495
LESS:		
Cost of goods sold	1,278,665,253	1,225,435,044
Selling, advertising, general and administrative expenses	121,986,079	113,637,163
Provision for depreciation	21,859,294	18,583,451
Interest and debt expense	4,261,702	4,421,347
Provision for Federal and state taxes on income	133,019,000	127,720,000
TOTAL INCOME DEDUCTIONS	1,559,791,328	1,489,797,005
NET EARNINGS	133,356,992	124,005,490
Dividends paid on Preferred Stock	722,129	768,352
NET EARNINGS APPLICABLE TO COMMON STOCK	$ 132,634,863	$ 123,237,138

NOTES TO FINANCIAL STATEMENTS

NOTE A — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its domestic subsidiaries. All intercompany items and transactions have been eliminated in consolidation. Accounts of foreign affiliates are not consolidated, such investments being carried at cost less reserves to reduce them to the equity in the underlying net book assets.

NOTE B — OUTSTANDING STOCK OPTIONS

Substituted options to purchase shares of Common Stock of the Company, issued in 1963 as a result of the acquisition of Pacific Hawaiian Products Company, expire at varying dates to August 1, 1967. During the year, substituted options for 229 shares were exercised at $15.51 per share. At December 31, 1965, substituted options were outstanding at option prices per share as follows: 2,773 shares, $34.20; 1,665 shares $37.80.

NOTE C — ACQUISITION OF PENICK & FORD, LTD., INCORPORATED

The net assets and business of Penick & Ford, Ltd., Incorporated were purchased on June 9, 1965, for $96,562,356 in cash. The Company is not amortizing the cost in excess of net assets of business acquired.

Statement of Earnings Retained

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

Year ended December 31, 1965 — with comparative figures for 1964

	1965	1964
EARNINGS RETAINED for requirements of the business—at beginning of year	$529,723,778	$480,221,023
Add Net Earnings	133,356,992	124,005,490
	663,080,770	604,226,513
Deduct cash dividends:		
Preferred Stock, 3.60% Series	722,129	768,352
Common Stock at $1.85 per share for 1965 ($1.80 per share for 1964)	75,006,254	73,734,383
	75,728,383	74,502,735
EARNINGS RETAINED for requirements of the business—at end of year	$587,352,387	$529,723,778

REPORT OF INDEPENDENT ACCOUNTANTS

R. J. REYNOLDS TOBACCO COMPANY, ITS DIRECTORS AND STOCKHOLDERS

We have examined the consolidated financial statements of R. J. Reynolds Tobacco Company and consolidated subsidiaries for the year ended December 31, 1965. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of R. J. Reynolds Tobacco Company and consolidated subsidiaries at December 31, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the statement of disposition of net earnings for the year ended December 31, 1965, shown on page 5 presents fairly the information shown therein.

Winston-Salem, N. C., February 9, 1966

Ernst & Ernst

R. J. Reynolds Tobacco Company

BOARD OF DIRECTORS

Willard M. Bright
Leighton H. Coleman
A. H. Galloway
Bowman Gray
Gordon Gray
S. B. Hanes, Jr.
Reuben P. Hughes
William R. Lybrook
Charles F. Myers, Jr.
David S. Peoples
H. H. Ramm
Joseph H. Sherrill
W. S. Smith, Jr.
Colin Stokes
Charles B. Wade, Jr.

OFFICERS

Bowman Gray
Chairman, Board of Directors

A. H. Galloway
President and Chairman, Executive Committee

S. B. Hanes, Jr.
Executive Vice President

Colin Stokes
Executive Vice President

H. H. Ramm
Vice President and General Counsel

Charles B. Wade, Jr.
Vice President

W. S. Smith, Jr.
Vice President

William R. Lybrook
Vice President and Secretary

Joseph H. Sherrill
Vice President

David S. Peoples
Vice President and Comptroller

Willard M. Bright
Vice President

E. C. Peterson
Treasurer

REGISTRAR

Manufacturers Hanover Trust Company
350 Park Avenue
New York, New York 10022

TRANSFER AGENTS

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

The First National Bank of Jersey City
1 Exchange Place
Jersey City, New Jersey 07303

a — **Bowman Gray**
Chairman, Board of Directors
Director since 1947
36 years of company service

b — **A. H. Galloway**
President and Chairman,
Executive Committee
Director since 1951
37 years of company service

c — **H. H. Ramm**
Vice President and General Counsel
Director since 1946
20 years of company service

d — **Joseph H. Sherrill**
Vice President
Director since 1960
31 years of company service

e — **S. B. Hanes, Jr.**
Executive Vice President
Director since 1948
30 years of company service

f — **W. S. Smith, Jr.**
Vice President
Director since 1960
26 years of company service

g — **Charles B. Wade, Jr.**
Vice President
Director since 1955
27 years of company service

h — **Dr. Willard M. Bright**
Vice President
Director since 1964
2 years of company service

i — **Colin Stokes**
Executive Vice President
Director since 1957
30 years of company service

j — **Reuben P. Hughes**
President, Pacific Hawaiian
Products Company
Director since January, 1965
3 years of company service

k — **Charles F. Myers, Jr.**
President, Burlington Industries, Inc.
Director since 1964

l — **William R. Lybrook**
Vice President and Secretary
Director since 1952
26 years of company service

m — **Gordon Gray**
Chairman, National Trust
for Historic Preservation
Director since 1961

n — **David S. Peoples**
Vice President and Comptroller
Director since 1959
19 years of company service

o — **Leighton H. Coleman**
Partner, Davis Polk Wardwell
Sunderland & Kiendl
Director since 1959

R. J. REYNOLDS TOBACCO COMPANY
Winston-Salem/North Carolina

For flavor that's head and shoulders above the rest...

**Change to Winston and change for good...
for good taste every time!**

Winston tastes good_like a cigarette should!